

FISCAL NOTE

SB 4083 - HB 4056

February 27, 2008

SUMMARY OF BILL: Exempts computer software costing \$100 or less from state and local sales tax when sold during the annual sales tax holiday.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$684,100

Increase State Expenditures - \$219,900

Assumptions:

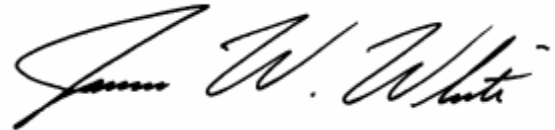
- Computer software costing \$100 or less is software purchased and used exclusively in the home; business software is assumed to cost in excess of \$100 and is therefore excluded.
- Computer software costing \$100 or less includes video games.
- According to U.S. Census data, there are approximately 2,370,000 households in Tennessee.
- According to Census Bureau data, the percent of Tennesseans below the poverty level in Tennessee in 2006 was 16.2 percent.
- Households below poverty level do not own computers; therefore they have no need for computer software.
- The number of households with the ability to purchase computers, and thus computer software, in a given year is estimated to be 1,986,000 ($2,370,000 \times [1.00 - 0.162] = 1,986,060$).
- 70 percent (1,390,200) of such households actually own computers.
- 75 percent of those owning computers (1,042,650) purchase at least one software package over the course of a year.
- One-twelfth or 8.3 percent (86,540) purchase at least one software package during the month of August under current law.
- One-eighth or 12.5% (130,331) purchase at least one software package during the August sales tax holiday when such software would be considered tax-exempt.
- Average cost of software is estimated to be \$75 each.
- Taxable sales are estimated to be \$9,773,300 ($130,311 \text{ individuals} \times \$75 = \$9,773,325$) per year.
- The current state sales tax rate is 7.0%.

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- The decrease to state revenue is estimated to be \$684,100 ($\$9,773,300 \times 7.0\% = \$684,131$) per year.
- The local option sales tax rate is estimated to average 2.25%.
- The decrease to local government revenue assuming the state did not hold local governments harmless from the loss of local option sales tax revenue is estimated to be \$219,900 ($\$9,773,300 \times 2.25\% = \$219,899$) per year.
- The state holds local governments harmless from the loss of local option sales tax revenue occurring as a result of the annual sales tax holiday.
- The increase to state expenditures is estimated to be \$219,900 per year.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

/rnc